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## THE OPERATING PROBLEMS OF THE AMERICAN MERCHANT MARINE

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**T**HE tonnage of the world, notwithstanding the losses by submarines, is larger today than it was in 1914. In that year it was about 49,000,000 gross tons, and today it is over 57,000,000.

Our own seagoing tonnage in 1914 was about 2,000,000 gross tons; today it is over 12,000,000. Of this tonnage something over 6,000,000 tons gross register, equivalent, roughly speaking, to 10,000,000 tons deadweight carrying capacity, in units of 5,000 tons or more, are serviceable for the foreign trades. By foreign trades I mean the longer voyage trades, across the Atlantic, across the Pacific, and to South America.

I purpose to deal only with general cargo steamers, eliminating tank vessels built for the carriage of fuel in bulk, and passenger steamers, the operation of which presents quite different problems.

The title to the general cargo tonnage is still in the United States. Most, if not all of it, has been operated in foreign trades, in the hands of private operators, under the direction and for account of the Shipping Board.

It is the declared policy of Congress, in the Merchant Marine Act, 1920, that this tonnage shall be sold to citizens and transferred into private hands. It is the hope of the country that this may be accomplished on such terms and in such a manner that the ships can be profitably operated by private ship-owners, and may form the nucleus of a larger and better balanced American merchant marine, suitable to the needs and to the dignity of the country. The operating problems of private ship-owners who are expected to buy and operate this fleet are those that I intend to discuss.

The essential condition of any successful operation of American merchant vessels in the foreign trade, by private

initiative, is equality of opportunity with our principal foreign competitors. Our shipowners must be practically on all fours with their competitors in order to make a profit. If they cannot make a profit the accumulated savings of our people will not seek investment in the industry, and without this the establishment of an American merchant marine in private hands cannot be accomplished.

The three fundamental matters involved in equality of opportunity in competition are: (1) the first cost of ships bought by our citizens must reasonably approximate the costs of their competitors in order that capital charges may be substantially equalized with those of the competitors; (2) operating costs must be, or must be made, approximately equal to those of our competitors; and (3) privately owned ships must be free from competition by tonnage owned by the government.

1. I place the condition of equality of capital costs ahead of all others because the annual capital charges, which run throughout the life of the ship, constitute the main factor in determining whether it can or cannot be operated successfully.

Capital charges based on the prices now asked by the Shipping Board are altogether prohibitive. They would be far greater, in comparison with the similar charges of their competitors, than the difference in the cost of operation under our flag and the flags of such competitors.

The annual capital charges, payable from earnings, are insurance and depreciation, to which I add 6 per cent interest upon the investment.

Insurance is a necessary charge, universally paid for in premiums, or paid from an insurance fund created by a charge on earnings equivalent to such premiums. The hazard of loss of the investment by marine perils or fire is constant, and no prudent ship-owner can remain uninsured. Depreciation is usually charged at 5 per cent per annum on the cost of the ship, on the theory that its useful life is limited to approximately twenty years. The amount is taken from earnings and placed in a sinking fund for replacement. Interest upon the investment must be considered, since the expectation of a reasonable return upon capital is a necessary inducement to investment.

The price asked by the Shipping Board for a vessel of this class, contracted for during the war, is \$175 a deadweight ton. Great Britain, immediately after the armistice, sold to its citizens the ships of similar type and class which it had built during the war, for £23, or approximately \$100 a ton. Scandinavian ship-owners have recently offered in our market ships contracted for during the war at prices of much less than \$100 a ton, without finding buyers.

A comparison of the capital charges on a typical steamer of 8,800 tons, deadweight-cargo capacity, purchased by a citizen at the Shipping Board price of \$175 a deadweight ton, and those on a similar ship bought by a foreign subject at \$100 a ton, shows the following result:

	<i>American ship</i>	<i>Foreign ship</i>
Cost price .....	\$1,540,000	\$880,000
Capital charges:		
Insurance at 4% .....	61,600	35,200
Depreciation at 5% .....	77,000	44,000
Interest at 6% .....	92,400	52,800
Total .....	\$231,000	\$132,000
Excess of capital charges on the American ship .....	\$99,000 per annum.	

The excess of capital charges on American ships is probably greater than this when compared with the similar charges on a great part of the tonnage of our competitors. The amount of similar foreign tonnage built at pre-war prices and now in active competition is more than twice the quantity that our government has to sell. The original cost of this competing tonnage is far less than \$100 a deadweight ton (probably not more than from \$40 to \$75 a ton), and its average capital value, for the purpose of computing annual capital charges, is carried at less than that amount.

The comparison, even on the basis that I have taken, means that in order to earn a clear 6 per cent return on the investment, an American ship of this class and size would have to earn approximately \$100,000 per annum more than a similar foreign ship operated by a competitor; that an American owner of an average fleet of ten such ships would have to earn approximately \$1,000,000 per annum more than a foreign

competitor operating the same number of ships; and that the whole amount of the 10,000,000 deadweight of American tonnage that I am considering as available for service in the foreign trade would have to earn more than \$100,000,000 per annum in excess of the earnings of a similar amount of foreign tonnage operated by competitors.

The bare statement of this startling situation demonstrates the need of reducing the capital investments of American ship-owners to the lowest possible figure bearing a reasonable approximation to the market value of tonnage, and indicates the futility of the governmental policy of holding out for such excessive prices. No greater disservice could be done to the development of a privately owned American merchant marine than to sell the government tonnage to private owners at prices which cannot be successfully worked out in the operation of the ships in foreign trade, nor can any greater discouragement to the investment of capital be found than is embraced in such a policy.

In these circumstances we may well give heed to the British view of our mistaken policy, as expressed in a recent issue of their leading shipping review ("*Fairplay*", November 18, 1920):

The opinion that ship-owners have held in this country from the start—not from their own point of view, but in the interest of American shipping, in which regard they have been endorsed to my personal knowledge by many prominent American ship-owners—is that, if it is the Board's desire to encourage American investors and capable business men to go into shipping, it must dispose at less than the world's price of the vessels it owns, and write the difference off as a war loss. But what has the Board done? It has sold boats wherever possible at a figure at least 100 per cent more than that for which they would be purchased in this country, and has encouraged buyers to take them over on the piano system. And the inevitable result is that it has been found impossible to provide for the installments out of earnings—and bankruptcy will follow in due course. Is this encouraging investors? . . . To suggest that, at the rates now quoted, an American steamer is worth the Board's price is rather pathetically laughable.

For the period of a year or more after the armistice the market for ships, at reasonable prices, was strong, and money conditions were favorable for the financing of new enterprises. A large amount of the tonnage would probably have been disposed of at that time if sound business policies had been followed.

The unfortunate result of holding out for prices 100 per cent above the market has been that only a negligible quantity of the ships has been sold. Few of the old established companies felt that it was prudent to buy ships at such prices. A number of the new companies which contracted to buy, on the installment plan, have had to turn the ships back to the government, and others have passed into receiverships. Meanwhile the market value of tonnage throughout the world has fallen at least \$25 a deadweight ton and probably more, and money conditions have changed so that new financing is impracticable. Whatever the value of the tonnage may have been a year ago, its value now is at least \$250,000,000 less, and the ships remain unsold. That the loss will eventually amount to much more than this, when the ships are sold at prices that can be obtained for them in the future, is a reasonably safe prediction.

2. The principal handicap in operating costs under the American flag at present is in the wages of the personnel.

Wages for officers and men on the typical American steamer of 8,800 tons deadweight, used in the previous comparison, amount, at the present standard of wages, to \$5,315 a month. The wages of an identical British steamer amount to \$3,924 a month. The excess cost to the American vessel is \$1,391 a month, or \$16,692 a year. On an average fleet of ten steamers this excess in wages is \$166,920 a year; and on the steamers aggregating 10,000,000 tons, that I am considering as available for foreign trades, it would amount to approximately \$20,000,000.

Further disadvantages in the cost of operation result from less efficiency in a part of the personnel available for employment on American ships. Inefficiency in this respect means larger costs for repairs and failure to obtain the greatest possible earnings from operation. While the cost of these unfavorable factors cannot be readily computed, it is substantial and must be taken into account.

Our laws require that licensed officers and engineers must be citizens. Proper training for work of this kind is obtained in two ways—by long experience at sea, and by scientific intensive training for short periods. As the opportunities for training by experience have heretofore been slight, the supply

of skilled talent trained in this manner is scant; and few have been trained by scientific methods except in the schools started during the war. The result is that we have a far less number of efficient men in both the licensed and unlicensed classes than our chief competitors. Our efficiency in operation as compared with that of our competitors will be comparatively lower so long as this condition continues.

While many good officers and engineers are in service, there is still a shortage of highly efficient officers and a greater dearth of skilled engineers. The supply of engineers is recruited by our competitors from the machinists' trade, while the unlicensed engineers of our ships are largely recruited from the fire-room. All unlicensed engineers must be members of the Firemen's Union until they have served at sea a sufficient length of time to qualify for a license. It is better to be a graduate of the lathe than of the shovel. The trained machinist can effect a large amount of the repairs which otherwise fall to the repair yards. The added cost of engine-department upkeep, due to inefficiency of a part of the personnel, makes a formidable bill to be paid from the earnings of American ships.

Training schools should be extended and expanded in order that skillful instruction may make up, so far as possible, for lack of practical experience. The government should also assist, through some form of naval reserve, in meeting to a measurable extent the higher salaries that are necessary to attract the efficient type of men required for officers and engineers.

Certain provisions of the Seamen's Act, 1915, as amended by the Merchant Marine Act, 1920, impose additional burdens on American ships. The compulsory advance of half wages to seamen in foreign ports seriously affects discipline and the working of ships and involves expensive delays. Protests from 40 consular representatives, in foreign ports, against the continuance of such large advances of wages abroad, have been received by the State Department and laid before Congress. They say that these advances have led to dissipation, the spread of disease, law breaking, and in some instances to crime; while ship-owners constantly receive reports of delays of ships in order to obtain the return of the men on board. These provisions, which do not touch the chief purposes of the en-

actment of the law, are not in the best interests of the seamen themselves, and the Navigation Laws Revision Committee, appointed by the Shipping Board, has recommended their amendment. If the burden of these laws cannot be removed by amendment, the cost of them should be viewed as the expense of a public policy, taken in the seamen's behalf and reimbursed to ship-owners by some form of public grant.

3. The third essential condition of private operation is the removal of competition by government ships.

The Government, at the present time, is the largest ship-owner in the world. Its operation of the ships is not controlled by the considerations of cost and expense that apply to private shipowners. It operates its ships in competition with private shipowners, in the same trades, under the management of operators who have no investment or permanent interest in the enterprise. Its losses, which are reported to be colossal, are borne by the taxpayers.

Competition by private shipowners with their foreign competitors and with their own government cannot long endure. Complaints of this competition reached a congressional investigation committee, which recently interrogated a representative of the Shipping Board on the subject. The remedy reported to have been suggested by him was to sell all privately owned ships to the Government. This, of course, would be a complete reversal of the policy declared in the Merchant Marine Act, 1920, for the sale of all government tonnage to private shipowners. The fact that such an answer could be given by a representative of the Board indicates at least that the complaint was legitimate. The real remedy is the withdrawal of the Government from all such competition.

I have now mentioned the conditions which, I believe, experienced shipowners will agree are indispensable to the transfer of government tonnage into private hands and to the successful operation of it in the foreign trades. The far more difficult and important problem is, how can these conditions be satisfied?

The first step in the transfer of the tonnage to private hands is to find the money to buy the ships. It must be realized that the situation with regard to surplus funds available for this purpose is far different in this country from that in the



countries of our competitors. In all those countries numerous companies, many of them of large capital, were operating before the war, and during and for the first year after the war they accumulated enormous reserves which have strengthened them for all purposes of competition. They are already supplied with tonnage, and they have the funds with which to replace old ships with new and improved vessels more suitable for their requirements.

In this country there were but few companies engaged in foreign trade before the war, and not many of those subsequently organized have accumulated important reserves of capital. The money to buy the government tonnage, therefore, is not in the treasuries of existing companies. It must come from the accumulated savings of investors, and be obtained by the sale of shipping securities.

The natural development of investment in the new industry would be through the expansion of the older, more experienced, and better established companies, with whose securities investors are already familiar. The establishment of new companies would naturally follow but would be of slower growth.

Capital, however, is proverbially timid in embarking upon new enterprises. It will only invest upon assurances by those experienced in the industry of the probability of successful operation, and the terms upon which it will invest will have a very distinct relation to the obstacles which must be overcome in order that profit from the business may be assured.

The obstacles to profitable operation which stand out boldly in the terms and conditions heretofore offered by the government as the basis of sale of the tonnage to private companies are: Excessive capital costs as compared with those of our competitors; the unfavorable differences in operating costs; governmental competition; and the burdens arising, or that may arise, from legislation. Among the burdens from legislation are compliance with the regulations made and to be made under powers granted to the shipping Board; the probability of trade wars arising from the application of preferential railroad rates on goods carried or to be carried in American bottoms, and from the levy of discriminating duties on cargoes carried in foreign vessels, and the allowance of discount from duties on goods carried in American bottoms.

The handicap of excessive capital charges can be overcome in the adjustment of the price at which the ships are sold, and, as a practical matter, in no other way. Without a most drastic cut in the prices that have heretofore been asked by the Shipping Board, the fleet cannot be sold to private companies, because investors will not furnish the money to buy them. If the country really wants to establish a privately owned merchant marine it must understand and accept this essential condition. I do not think the country would object to this, because, as has been well said: "Everyone realized at the time [of building] that the ships were costing far more than they would be worth in ordinary times for the purpose of commerce, foreign or domestic, and that the excess cost was as much the people's sacrifice to win the war as were expenditures for explosives, projectiles, airplanes and artillery. As an economic fact, though not visible to the eye, that excess cost and the value it represented have disappeared as completely as the money spent on exploding shells along the battle front over two years ago. A plain, possibly a statutory recognition of this fact is necessary not only to the operation of a merchant marine on mercantile principles, but, what is of much more general but of less intense local interest all through the country, it is necessary to the development and even the maintenance of our foreign trade."

The valuation that must ultimately be placed on the tonnage will bear no near relation to its original cost nor to the present cost of building, since the world is oversupplied with tonnage, and there will be no demand for the building of this class of tonnage until the present supply is absorbed and assimilated. It will be the market value as measured by the demand for it, and by nothing else. That market value is likely to be low. It will have to be so low that the capital charges based upon it will be reduced to the standard of the capital charges of our competitors. It may have to be so low that the cost of other handicaps incident to operation under the American flag may be taken care of in lower capital charges than those of our competitors. This is a condition which the authorities in Washington are slow to realize or unwilling to face, but it must be realized and must be faced if private capital is to be induced to invest on a large scale in shipping for the foreign trade.

The difference in the costs of operation could be taken care of by such reduction in the price of tonnage that the saving in capital charges would equal the excess in operating costs, or the difference can be equalized by some form of grant from the Treasury.

The fear of competition by the government could be removed by a requirement for the sale of the tonnage within a short period of time, or by the compulsory withdrawal of competition by the government in the trades where ships owned by private companies are affording reasonably adequate service. The latter alternative could be easily provided for by the allocation or chartering to purchasers, for operation, of any supplemental tonnage that may be needed in such trades.

The extensive grant of powers of regulation to the Shipping Board will be a serious deterrent to investment. No abuses existed which really required the grant of such comprehensive powers. That the powers have not been fully exercised as yet is unimportant. Permanent boards in the long run exercise the powers that they have and usually reach out for more. A regulated merchant marine is handicapped, to the extent of the regulation in competition with foreign shipowners who are not subject to regulation. Capital will realize this fact, and will be correspondingly slow to invest in the industry.

The danger of injury to the merchant marine through the application of discriminating rates and duties, as contemplated by the Merchant Marine Act, 1920, is a matter of grave concern to owners and investors.

This statute calls for the denunciation of treaties now in force with all the principal commercial countries that mutually provide against the levying of discriminating duties on ships or commerce. The Underwood Tariff Law of 1913 contains provisions for the levying of discriminating duties except in cases where they may be forbidden by treaty. The termination of the treaties would therefore automatically put these discriminating duties into effect.

The levy of discriminating duties and rates is a measure peculiarly susceptible to reprisal. If such a policy should be adhered to by this country it would unquestionably be met by our competitors in the same manner that we met the attempt of France to levy discriminating duties after the Franco-Prussian

War. That was the first and only attempt to build up a merchant marine by the use of discriminating duties since 1815. President Grant, under the power conferred by the Revised Statutes, placed retaliatory duties upon French shipping. After a short and active fight the discriminatory duties were abolished by France, and the President, in 1869, by a further proclamation, abolished the discriminatory duties levied by us against French commerce.

The question of the employment of discriminating duties as an aid to the American merchant marine was very fully considered by a commission consisting of five senators (Gallinger, Lodge, Penrose, Martin and Mallory) and five members of the House of Representatives (Grosvenor, Minor, Humphrey, Spight and McDermott) in 1904. An exhaustive series of hearings, lasting about eight months, was conducted by this commission. It held meetings in all sections of the country and took testimony to the extent of 2,000 pages from all classes of people interested in foreign commerce.

The Commission decided against the policy of discriminating duties by a majority of 7 to 3. A report entitled, "Why a Majority of the Merchant Marine Commission Did Not Recommend Discriminating Duties" embodying conclusive reasons against it, was presented to the Senate by Senator Gallinger on February 21, 1905 (Senate Document 169, 58th Congress, 3rd Session). All the members of the Commission concurred in the report except Senators Martin and Mallory and Representative Spight.

Among the grounds stated for declining to adopt this policy were: (1) that from 60 to 70 per cent of the bulk or tonnage of our imports was on the free list, so that only approximately one ship in three could gain advantage from discriminating duties; and (2) that as the balance of our trade is in exports, our competitors, under principles of reprisal, could lay discriminating duties on a greater quantity of exports than we could place on imports even if all the articles on the free list should be made subject to the discriminating duties. Both these reasons apply with greater force at the present time. We have now a larger bulk or tonnage of imported products on the free list, and the balance of our exports over imports is far greater than in 1904. The prospect of having our com-

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petitors levy discriminating duties upon our exports, valued at more than \$2,000,000,000 in excess of our imports, while we fight them with discriminating duties on goods of that much lower value, seems a dubious encouragement to an American merchant marine.

It is, of course, for the Legislature to decide upon all questions of national policy. It is a fact, however, that the ship-owning industry did not ask Congress for these provisions of the statute and were not heard upon them. In 1904 the protest of shippers alone was sufficient to turn the scale against the policy of discriminating duties.

Before concluding definitely to adhere to that policy it would seem that Congress should at least make a further and more careful study of the subject, and seek the advice of all classes of the community that would be affected by its adoption.

I mention the matter now not for argument, though personally I believe the policy would be ruinous, but because, whether it be a wise or unwise policy, it would inevitably lead to serious and protracted trade wars, and I am sure that capital would not embark largely in an industry which is to start out with trade wars on its hands. The setting aside of the provisions for reciprocal equality in the treatment of ships and commerce, now contained in more than 30 treaties with the principal commercial nations of the world, would create a condition of demoralization in commerce that intending investors in the merchant marine would view with the greatest alarm.